

ISSUER COMMENT

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Montgomery (County of) MD

Voters amend limits to property tax revenue collections, a credit positive

On November 3, voters in [Montgomery County](#) (Aaa stable) approved a charter amendment on property tax limitations which enables the county to raise property tax rates without revenue constraints, a credit positive.

The approved measure (Question A) replaces the existing limit and enables a unanimous vote by County Council to adopt a tax rate on real property that can exceed the rate from the previous year. The amendment is credit positive for county operations because property tax revenue is not subject to any restrictions based on inflation, and revenue growth can be captured through tax base expansion in addition to any approved rate increases. The county's previous charter limit, a self-imposed tax cap that was enacted in 1990, limited property tax revenue growth to the rate of inflation (CPI index) and an amount based on new construction.

A second charter amendment on the ballot (Question B) was rejected, which aimed to remove the county's ability to increase revenue above inflation. The failure of the measure is also positive because it enables the county to retain flexibility to increase this revenue source when needed to balance the budget, particularly as its income tax rate is already levied at the maximum state cap of 3.2%. Montgomery County is just one of five counties in Maryland with a charter amendment limiting property tax revenue increases, and the ability to adjust the tax rate accordingly is important, particularly as most of the county's debt is secured by its limited ad valorem tax and full faith and credit pledge.

Income taxes are the county's primary general fund revenue source (43.5% of total fiscal 2019 revenue), followed by property taxes (36.6%) and other local taxes (7.8%).

The county demonstrated willingness to override its prior charter limit in May 2016 when it approved a 9.9% increase in property tax revenue to support rising debt service and insurance costs, as well as an increase in the Maintenance of Effort (MOE) for K-12 schools and the community college, mandated by the [State of Maryland](#) (Aaa stable). Without the increase, the county faced a \$178 million budget gap in fiscal 2017 (ended June 30, 2017).

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